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FAR EAST

1. Severe Japanese reaction to Korean activity on Liancourt Rocks expected:

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Ambassador Allison believes the recent establishment of a lighthouse on the Liancourt Rocks by South Korea will cause serious repercussions in Japan.

The Japanese government will be unable to ignore this latest Korean action, Allison feels, because the government, press and citizens are highly sensitive regarding the issue of the sovereignty over the rocks.

The Japanese Foreign Ministry has advised the American embassy that a government patrol vessel was fired on from the Liancourt Rocks on 23 August. The ministry will protest the action but intends to keep the matter confidential unless the South Koreans make it public.

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If these provocative actions become generally known, the Japanese government will be under extreme pressure to take retaliatory measures, including steps against Korean residents and possibly to expel the Korean mission. Japan has recently armed its patrol vessels in the area.

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SOUTHEAST ASIA

3. Viet Minh continues large stockpiling program:

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Heavy Chinese Communist aid to the Viet Minh continues, according to French information given the American army attaché in Saigon. The rate of aid has been accelerated since the cease-fire on 27 July

in an attempt to stockpile supplies before the arrival of international inspection teams. Included in the shipments are large quantities of munitions, artillery pieces, and vehicles.

The army attaché comments that while inspection teams will perhaps be able to control to some extent supplies entering Indochina over main routes, the cessation of illegal traffic is not expected. Materiel currently entering the country is intended not only for resupply but also to equip new units.

Comment: This report apparently confirms the expectation that Chinese aid would continue after the cease-fire at a level comparable to the 3,000-tons-a-month figure reported by the French early this year.



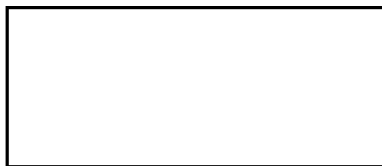
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4. French Associated States minister reported considering "use" of Bao Dai:

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French minister for the associated states Guy La Chambre told Ambassador Dillon in Paris on 23 August that he is becoming convinced that the French government may have to use Bao Dai again in spite of his "grave weaknesses." La Chambre fears that without Bao Dai's influence, much time might be lost in rival jockeying for power and that his return would have to be with the understanding that he take an active role in the government.

Comment: La Chambre's views on the value of Bao Dai represent an abrupt departure from the line taken by French officials over the past several weeks, but do not appear to reflect any change in France's effort to bring about a new Vietnamese government more amenable to its ends than Diem's.

The jockeying for power to which La Chambre refers consists exclusively of the activities of certain Vietnamese politicians who have virtually no local following and whose only hope for success is to win French support.

NEAR EAST - AFRICA

5. Comment on Arab proposals for Middle East defense:

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The current Egyptian and Iraqi proposal that a modified Arab League Collective Security Pact should form the basis for Middle East defense inaugurates a new period of bargaining and bickering during which little progress on defense arrangements can be expected. Membership in the proposed pact would be open to Turkey, Iran, Pakistan, Britain and the United States, as well as to the Arab countries.

This plan is substantially the same as the Arab counterproposal to the West's ill-fated Middle East Command and Middle East Defense Organization proposals of 1951 and 1952 respectively. Its resurrection now represents Egyptian success in delaying, if not preventing, Iraqi adherence to the Turkish-Pakistani pact.

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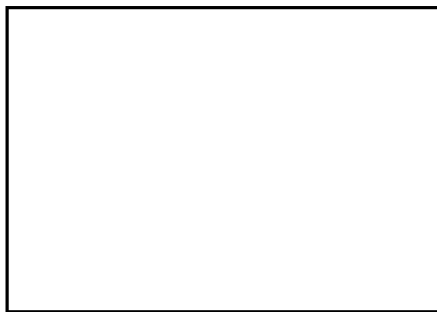
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25X1 Fixation on the Arab League Collective Security Pact indicates that the Arab states are still unable to conceive of military co-operation with the West except on essentially their terms. [REDACTED]

WESTERN EUROPE

6. Adenauer still sees hope for EDC:

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Although worried about Britain's attitude toward European integration, Chancellor Adenauer told Ambassador Conant that he is encouraged by the united stand of the five EDC nations at Brussels against Mendes-France's treaty modifications. Adenauer believes that as long as it is apparent that France will be isolated if it rejects the

treaty, the French premier may yet present the treaty to the assembly in a manner which would make ratification probable.

American officials in Bonn add that the chancellor told the Bundestag Foreign Affairs Committee that if EDC failed, the five pro-EDC states, Britain and the United States would confer on the next move on German rearmament. Thus far, the opposition Social Democrats are showing reserve in criticizing Adenauer, who seems to feel that he can get their co-operation in finding an alternative should EDC fail.

Comment: Opinion in Paris political circles on Mendes-France's intentions remains divided, though the press in both France and West Germany takes a pessimistic view regarding the treaty's prospects.

Socialist Party leader Guy Mollet, who has consistently refused to participate in any governments since the last election, has told the American embassy that he is now ready to offer to join Mendes-France's cabinet if the latter will call for a vote of confidence on the EDC treaty with the modifications acceptable to the other Brussels conferees. Mendes-France has indicated a preference

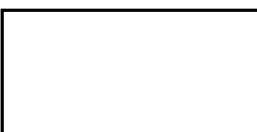
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for avoiding a vote of confidence, but in any case faces the task of reconstructing his cabinet. His agreement to Mollet's proposition would seem to constitute the best remaining chance for EDC ratification by France.

LATIN AMERICA

7. Comment on new Brazilian president:

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Joao Café Filho, who succeeded to the presidency on 24 August as a result of the suicide of President Getulio Vargas, rose to the vice-presidency as a result of opportunistic "politicking." In 1945 he reportedly backed the Communists' candidate for the presidency in order to gain votes for his own candidacy to the Federal Chamber of Deputies.

During the past few years, however, he is not known to have been connected with any Communists or front organizations, and he has made several speeches praising the role of United States capital in the development of Brazil. He is not a member of Vargas' Brazilian Labor Party, but of the Popular Socialist Party headed by the well-known demagogue Adhemar de Barros, erstwhile contender for a nomination for the presidency.

Because of his background it can be expected that the armed forces--which, with an assist from two former presidents, forced Vargas to resign early on 24 August--will keep a close watch on Café Filho and that he will go along with their demands. The government's orientation will continue to be conservative, anti-Communist and pro-United States.

There have been numerous press and radio reports of large demonstrations throughout much of Brazil, but the police, aided by the armed forces, can be expected to prevent these demonstrations from developing into serious riots.

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